

FISCAL FOCUS



Utah!
Where ideas connect

An Annual Report on State Government to Citizens of Utah for the Fiscal Year Ended June 30, 2003

A Message from the Governor



Governor
Olene S. Walker

I am pleased to introduce the 2003 edition of *Fiscal Focus*, which provides a brief look at Utah's financial, economic and demographic information. This past year has been filled with progress

as well as historical moments, all of which constitute a springboard for the future. *USA Today* named Utah the state that best-managed the economic downturn of the last two years. Utah was the only state to receive the newspaper's 4-star rating in each of the categories analyzed: spending restraint, bond rating, and tax system. Utah not only ranked highest, but was also the only western state in the top seven and the only Intermountain state in the top 14.

Utah has successfully weathered difficult financial times. However, this upcoming budget year will be challenging as we work to find funding sources for the growing needs in our state. We must be financially conservative and fiscally prudent.

As I became Utah's fifteenth governor in November, I promised Utah's citizens I will continue to be a strong financial steward. This is one of my top priorities in "The Walker Work Plan." The Walker Work Plan is a tool to measure progress and guide the state's business while I am in office. Other priorities in the plan include maximizing human potential and improving Utah, today and tomorrow. To secure a strong and prosperous future for our children and our children's children, the citizens of this great state will need to work together to increase literacy, focus on education, improve economic development, and maintain public safety. Now is the time to work together.

In addition, we will work with others to bring educational and cultural opportunities to our state. In February 2004, Moscow, Russia will bring athletes to Utah for a youth sports exchange. This presents a great opportunity for our children to cultivate friendships and celebrate diversity. Trade missions to Asia, Europe, Canada, South America, and cities within the United States are also planned.

It is my goal to visit each county within Utah. Economic development is

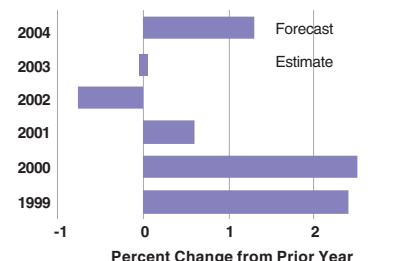
vital to our state, and each county will be provided tools to encourage employment, tourism, manufacturing, and development of technology.

The engine of economic development is education and higher education. Our students today will be our workforce tomorrow. Relative to population, we have more youth 18 and under and one-third more students in our public classrooms than any other state. Because of this, our state budget will always be strained. However, these children are our state's greatest asset. It is our responsibility to give every child the skills necessary to meet life's challenges.

Our individual responsibility begins with our children. One of the greatest gifts we can give to a child is the ability to read. I encourage every Utahn to spend the best 20 minutes of their day reading to a child.

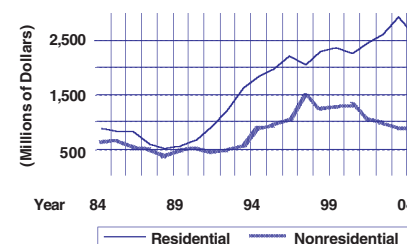
Utah has a bright future! We are a world-class state working diligently to create opportunities and to overcome challenges. We are a state rich in heritage and culture and committed to community, family, and tomorrow. Now is the time. Let's get to work!
www.utah.gov/governor

Job Growth Rates



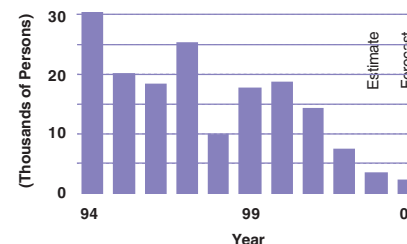
Source: Utah Department of Workforce Services

Construction Values



Source: Bureau of Economic and Business Research

Net In-Migration



Source: Utah Population Estimates Committee

Utah Economic Summary

Utah's economy began to recover during 2003. After falling in 2002, employment is expected to hold steady during 2003. While the national recession ended in November 2001, employment nationwide is still below the pre-recession peak. Income in both Utah and the nation held up fairly well during the recession, though national growth has been stronger recently than Utah's. As the recovery strengthens across the nation during 2004, Utah will likely see moderate growth.

Utah Situation – New home construction and defense spending helped steady the economy during 2003. The value of home construction is expected to reach an all-time high of \$2.8 billion during 2003. While housing is expected to soften during 2004, it will likely remain near record highs. Low interest rates, a product of low inflation and excess capacity, will continue to drive construction. The continuing defense build-up remains important to Utah's economy. Defense spending in Utah is expected to hit a record high \$3.1 billion

during 2003, up from the previous record \$2.8 billion in 2002, and should hit another record during 2004. Despite the weak economy, Utah had net in-migration during 2003, albeit just 3,400 people, which should continue into 2004. Utah has had net in-migration in each of the past 13 years, more than 240,000 people in all, or almost 40% of population growth. Unemployment is expected to fall to 5.3% for the year during 2004, employment is projected to grow by 1.3%, and the economy is expected to resume healthy growth as 2005 opens.

National Situation – Although the U.S. economy has been in recovery for two years, there are fewer jobs than when the recession began. On an annual basis, however, Gross Domestic Product (GDP) grew throughout the recession. The 2001 recession is the first downturn in which GDP did not decline on an annual basis. While job losses have been noticeable, the unemployment rate has remained near 6.0%, unprecedented for a recession. The

upshot is strong production combined with no new hires. While productivity may dampen job growth in the short run, the economy cannot expand and living standards cannot rise without productivity. With productivity growing and the international situation more settled than a year ago, business and consumer confidence will likely pick up, ultimately leading to rising business investment and job growth. Unemployment should remain near 6.0% during 2004 with job growth picking up by 1.5% as the economy continues strong growth into 2005.

Expect Accelerating Growth for Utah in 2004 – Most indicators suggest Utah's expansion is beginning and should accelerate through 2004 into 2005. Utah continues to experience in-migration, though at lower levels than during the 1990s. Increased defense spending will add strength to Utah's expansion, as will stronger growth nationally. Despite a slow start, Utah should see accelerating growth during 2004. www.governor.utah.gov/goph

Economic Indicators

	Annual Percent Change / Unemployment Rate		
	2002 Actual	2003 Estimate	2004 Forecast
Population	1.9%	1.7%	1.6%
Jobs	-0.8%	0.0%	1.3%
Personal Income	2.2%	2.4%	3.7%
Retail Sales	3.4%	1.5%	4.2%
Unemployment Rate	6.1%	5.7%	5.3%

Source: Governor's Council of Economic Advisors

The *Fiscal Focus* presents selected general government financial information that has been simplified from the traditional format reported in the State's Comprehensive Annual Financial Report (CAFR). The financial information is consistent with generally accepted accounting principles; however, it does not contain information for all funds, activities, or component units as reported in the CAFR. Readers may obtain a copy of the CAFR by contacting the Department of Administrative Services, Division of Finance or accessing: www.finance.utah.gov/reports/cafr.htm

FINANCIAL OVERVIEW

Financial Reporting

Each year the Division of Finance in the Department of Administrative Services publishes the State's Comprehensive Annual Financial Report. The report complies with generally accepted accounting principles and is audited by the State Auditor's Office.

The State's Comprehensive Annual Financial Report presents financial information on both a fund and government-wide basis. The fund basis reports revenues and expenses using individual funds that present a short-term perspective of the State's financial condition using the *modified accrual* basis of accounting. The government-wide statements provide a long-term perspective of the State's finances as a whole and are prepared using the *full accrual* basis of accounting, similar to private-sector companies. Some government-wide highlights from the June 30, 2003 report include:

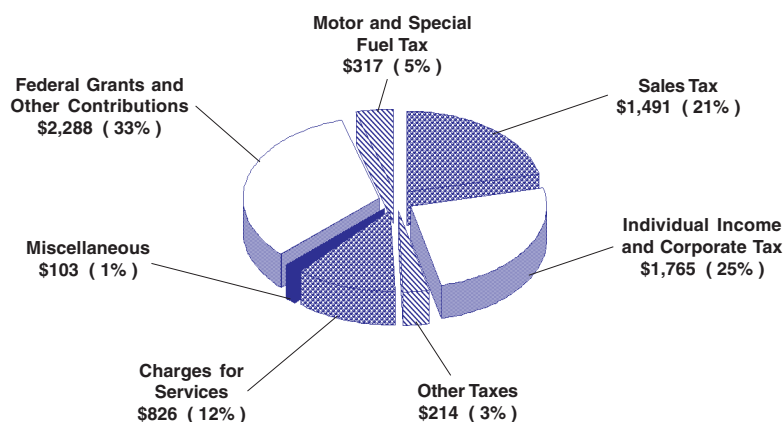
- The State had government-wide assets of \$15.3 billion and liabilities of \$4.5 billion, resulting in net assets of \$10.8 billion. Of total net assets, \$8.0 billion is reported as invested in capital assets (primarily highways) net of all outstanding debt that was issued to buy or build those assets. The remaining \$2.8 billion of net assets is available to fund the State's operations, though specific constitutional, legal, and contractual restrictions limit the uses of certain net assets to specific programs.

- Overall net assets increased \$262.6 million, or 2.5% from the prior year. Nearly half of the increase was due to investing in capital assets, such as highways and buildings, net of related debt. These increases resulted from a stabilizing economy and the active management of state resources.
- The State received 54.1% of its revenues from state taxes and 32.7% of its revenues from grants and contributions, mostly from federal sources. In the prior year, state taxes accounted for 54.8%, and grants and contributions were 31.3% of total revenues. Charges for goods and services, such as licenses, permits, liquor sales, state parks, and court fees combined with other miscellaneous collections, comprised 13.2% of total revenues compared with 13.9% in the prior year.
- Revenues increased from the prior year by \$405 million, or 6.1%. Combined tax revenues increased 4.8%, and federal grants and other contributions increased by \$220 million, or 11.9%, from the prior year.
- Expenses remained relatively flat compared to the prior year, with an increase of \$79.2 million, or 1.2%.

The charts below present government-wide revenues and expenses for the fiscal year ended June 30, 2003 using the full-accrual basis of accounting.

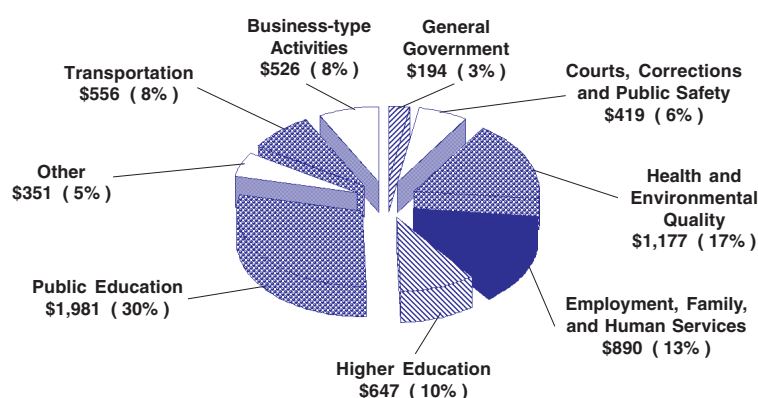
Government-wide Revenues FY 2003

(in millions and as a percent of total revenues of \$7.004 billion)



Government-wide Expenses FY 2003

(in millions and as a percent of total expenses of \$6.741 billion)



Budget Reserve Accounts

The State created the General Fund Budget Reserve Account, commonly called the Rainy Day Fund, in 1986 to serve as a "savings" account for future revenue shortfalls or other emergencies. In 2003, the State created the Education Budget Reserve Account within the Uniform School Fund to help cover any future shortfalls in education funding.

By law, 25% of any General Fund or Uniform School Fund surplus must be transferred to its respective budget reserve account at the end of each year. An additional 25% of that surplus must be transferred to each respective budget reserve account to pay back any appropriations that have been made from each

account in the last ten years. For fiscal year 2003, \$6.7 million was transferred from the General Fund to the Rainy Day Fund, half of which was intended to help repay \$105.3 million in appropriations from the account in 2002. In addition, \$601 thousand was transferred to the Education Budget Reserve Account.

Budget Reserve Accounts

June 30, 2003 Balances

Rainy Day Fund	\$ 26,546,000
Education Budget Reserve	601,000
Total	\$ 27,147,000

Managing Utah's Money in an Uncertain Economy

Utah has a long history of conservative fiscal policies and spending within its means. The State uses sound accounting practices to account for all assets, revenues, and expenditures, which provides reliable information that helps in the evaluation of Utah's financial condition. The State Constitution requires a balanced budget each year, meaning the State can spend only available funds. When actual revenues are less than expected, government spending is reduced to ensure a balanced budget.

The Legislature adopted the initial fiscal year 2003 budget in the 2002 General Session and met again in special sessions during fiscal year 2003 to rebalance the budget in light of lower revenue estimates. The Governor and Legislature balanced the 2003 budget through a combination of measures including:

- Reducing budgets across all state agencies.
- Reducing appropriations to the Centennial Highway Fund for highway construction by \$86.4 million.
- Transferring \$44.4 million to the General Fund from the Tobacco Endowment Fund.
- Redirecting \$12 million in dedicated sales tax from water loan programs and \$10.8 million from I-15 construction savings to the General Fund.

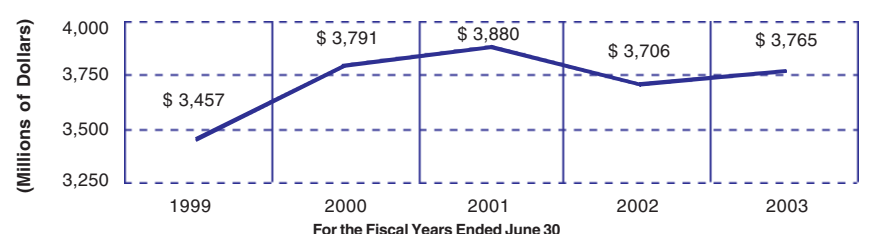
- Authorizing bonding of \$35 million to replace cash originally appropriated for capital projects.

Additionally, in the face of expected revenue shortfalls in the latter part of the fiscal year, agencies were able to curb spending through active budget management. As a result, agencies lapsed \$6.4 million of unspent budgeted dollars back to the General Fund. Although taxes and other unrestricted General Fund revenues ended the year slightly below the final budgeted amounts, the state ended the year with a slight surplus due to the receipt of \$38 million non-budgeted federal jobs growth and fiscal relief money.

Despite the recent economic slowdown, Utah's industrial structure continues to be well-balanced and diversified with a broad base of businesses, and a solid technology and transportation infrastructure. Combined with a young and highly educated workforce, the State is positioned well for positive long-term growth.

The fiscal year 2004 original budget estimates show a modest increase in revenues of 1.8% as the economy shows some early signs of improvement. Revenues to date in fiscal year 2004 are in line with original estimates. The chart below shows total tax revenues in the State's governmental funds for the last five fiscal years.

Tax Revenues – Governmental Funds



FISCAL FOCUS

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DEBT AND INFRASTRUCTURE

Utah’s Debt Management Plan

Utah uses a combination of tax revenues and borrowing to pay for the construction, repair, or renovation of higher education facilities, government buildings, parks, highways, and water projects. The State borrows through bonded debt consisting of general obligation (GO) bonds and lease and other revenue bonds. The State’s GO bonds are backed by the full faith and credit of the State and are repaid from general tax revenues. Revenue bonds are typically issued to finance specific projects or student loans and are repaid with revenues generated from the projects or loans and are not general obligations of the State.

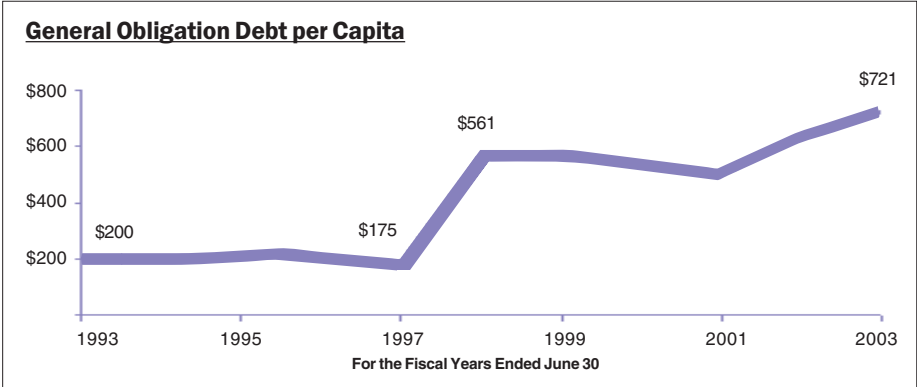
The amount of GO debt is limited by State Constitution and by state law. The State was \$848 million below the constitutional debt limit and \$136 million below the statutory debt limit at June 30, 2003.

During fiscal year 2003, the State issued \$660.5 million of GO bonds for the following purposes: \$253.1 million to refund existing debt to take advantage of lower interest rates; \$128.7 million to refund variable rate debt to lock in a favorable long-term interest rate; \$138 million for

capital facility construction; and \$140.7 million for highway construction. The State also issued \$119.8 million in revenue bonds to provide capital for purchasing student loans in the Student Assistance Programs. Total outstanding bonded debt at June 30, 2003, was \$3.385 billion, a net increase of \$285.9 million or 9.2% from the prior year.

The State’s active management of recent economic difficulties has helped the State maintain its triple-A rating on GO bonds and double-A rating on lease revenue bonds from all three national rating agencies. These ratings are the best available and save millions of dollars in interest each year.

In 1996, Utah voters approved a plan, effective January 1, 1997, where the State guarantees payment of principal and interest on bonds issued by qualifying local school boards. This measure reduces interest costs for local school districts to build schools. Since the inception of the program, the State has guaranteed approximately \$1.62 billion of local school board bonds, and at June 30, 2003, the principal amount of guaranteed school bonds outstanding was \$1.41 billion.



Department of Transportation

In light of a lean budget year, the Utah Department of Transportation (UDOT) recently completed an all-encompassing self evaluation to find more efficient ways of doing business. The end result of that study has been the identification of \$5 million annually that will now be applied directly to meeting transportation needs around the State.

The savings will come from a variety of sources, but mainly from a reduction of 98 full-time employee positions as a result of a hiring freeze put in place in February 2003, and regular attrition.

John Njord, Executive Director, said the primary reason to do such an evaluation was not to find “cutbacks” but to ensure UDOT is making the best use of all its resources in achieving its primary goals of taking care of Utah’s transportation system; making that system work better; and increasing safety and capacity.

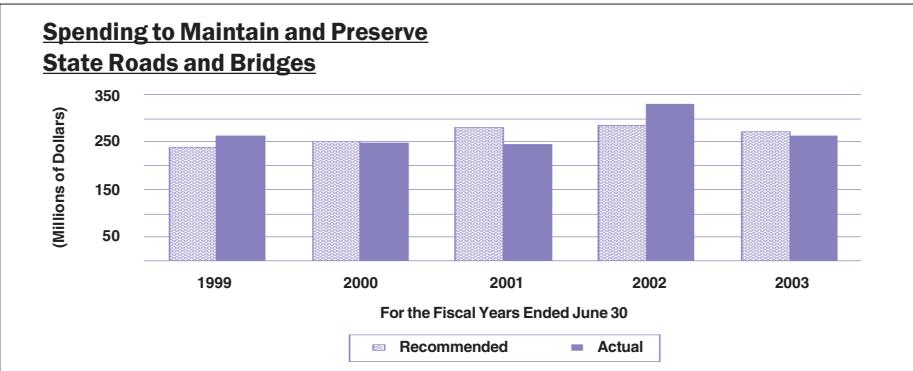
The State uses an asset management system that measures and assesses the maintenance condition of UDOT infrastructure. Infrastructure assets include roads, bridges, drainage systems, lighting systems, and similar items. UDOT maintains \$7.5 billion, or 99.8% of the State’s reported infrastructure assets. Utah’s goal is to maintain at least 50% of the 5,799

centerline miles of roads with a rating of “fair” or better and no more than 15% with a “very poor” rating. Currently 73% of roads are in “fair” or better condition and only 6.6% are in “very poor” condition. The goal for the State’s 1,778 bridges is to maintain at least 50% with a rating of “good” and no more than 15% with a rating of “poor.” Currently, 70% of the bridges are assessed in “good” condition and only 3% of bridges are assessed in “poor” condition. The table below presents the State’s recommended amount needed to maintain and preserve infrastructure at or above the established condition levels and the actual amount expended.

UDOT operations are funded with motor and special fuel taxes, fees for licenses and permits, federal contracts and grants, charges for services, and other miscellaneous revenue. Total funding for transportation-related operations during the fiscal year was \$973.4 million, which included approximately \$161 million in general obligation borrowing, and \$68.2 million from the General Fund.

Approximately \$874.6 million (including \$85.9 million for debt service) was spent during the fiscal year for transportation projects and related services.

www.udot.utah.gov



EDUCATION

Higher Education

The Utah System of Higher Education consists of ten public colleges and universities governed by the State Board of Regents, assisted by local Boards of Trustees. The system includes two Doctoral/Research Universities (University of Utah and Utah State University), two Masters’ Colleges (Weber State University and Southern Utah University), two Baccalaureate/Associate Colleges (Dixie State College and Utah Valley State College), three Comprehensive Community Colleges (Snow College, College of Eastern Utah, and Salt Lake Community College) and one Technical College with nine branch campuses throughout the State (Utah College of Applied Technology–UCAT).

Fall 2003 enrollment in the nine institutions (excluding UCAT) totaled 99,249 full-time equivalent (FTE) students, with a total headcount of 140,933. For fiscal year 2003, UCAT had a headcount enrollment of 54,334. During 2002–2003, the nine colleges and universities (excluding UCAT) awarded 23,431 degrees and certificates: 8,224 associate degrees; 11,168 bachelors degrees; 2,267 masters degrees; 284 doctorate degrees; 245 professional degrees; and 1,243 certificates.

During the past five years, with enroll-

ment growth outpacing revenues, state taxpayer support per FTE student has shrunk by 16.6%. Part of this has been made up by students who continue to pay a larger share of the cost of their education. In 2003, the Board of Regents increased tuition at the nine institutions by a base amount of 4.5% and approved additional increases averaging 6.5%, for a total average increase of 11%. A portion of the tuition increase was earmarked for need-based student financial aid. UCAT’s tuition increased 5% per membership hour for full-time students.

www.utahsbr.edu

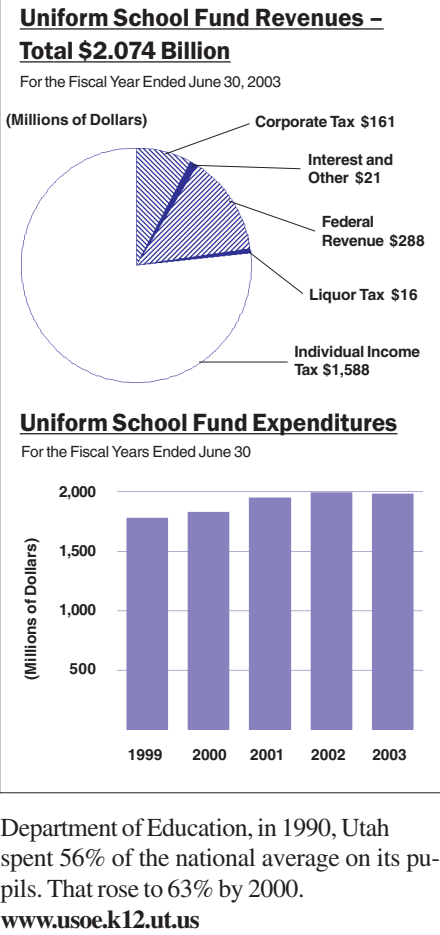
Public Education

Utah’s public education system is operated by 40 independent local school districts with oversight provided by the State Board of Education. The districts receive approximately 71% of their funding from the State, 22% from local sources through property taxes, and 7% from federal grants. Utah’s 22,008 teachers in its 807 regular public schools and 12 charter public schools educated 481,143 students, roughly 21% of the state’s population, during the 2002-2003 school year. Though increased budgets for public education have brought

the pupil-teacher ratio down from 24.4 to 1 in 1996 to approximately 21.9 to 1 in 2003, Utah still has the highest pupil-teacher ratio in the country because of its unique and young demographics. The national average pupil-teacher ratio is 16 to 1. Utah public schools are also coping with the changing demographics of the state. There are 47,786 students, just over 9% of the school population, who are learning English as a second language. There are an additional 66,419 special education students in Utah classrooms.

Utah students continue to perform as well or better than the national average. According to data from the National Assessment of Education Progress (The Nation’s Report Card), Utah’s fourth and eighth grade students outperformed national scores in mathematics and reading in year 2003.

In fiscal year 2003, state expenditures from the Uniform School Fund for public education were \$1.98 billion. This represents 29.5% of the State’s governmental expenditures making public education the State’s largest program. Per-pupil funding from all sources is \$4,692 compared to the national average of \$7,392. However, Utah is making progress in relation to the national average. Using constant dollar figures from the U.S.



OTHER GOVERNMENT AGENCIES/SERVICES

Health and Human Services

Human Services

Utah Department of Human Services offers programs for the elderly, substance abusers, people with disabilities, abused children, young offenders, the mentally ill, people who need assistance obtaining child support, and others. In fiscal year 2003, \$532 million was spent on providing services to assist individuals and families.

The Division of Child and Family Services provides services to protect children at risk of abuse or neglect by working with families to provide safety and permanence. In the 2003 fiscal year, 19,722 cases of child abuse, neglect, or dependency were investigated. Of these, 7,409 were substantiated, affecting 10,934 children. The Division also assisted with 331 child adoptions.

The Division of Services for People with Disabilities provides residential, day, and support services for 4,354 people with mental retardation, developmental disabilities, and brain trauma.

The Division of Substance Abuse and Mental Health provides oversight, fund-

ing, training, and technical assistance to local substance abuse and mental health authorities. The local authorities provide services to prevent and treat drug and alcohol abuse, and to assess and treat mental illness. The Division also supervises the Utah State Hospital in Provo.

The Office of Recovery Services is responsible for collecting child support obligations and other funds owed for assistance programs. In fiscal year 2003, Recovery Services collected \$171.1 million, a 3% increase over the prior year.

The Division of Aging and Adult Services administers services through local agencies that support and enhance independence for the elderly and investigates complaints of abuse, neglect, and exploitation of disabled adults or the elderly. In fiscal year 2003, the Division or local agencies investigated 2,296 referrals for potential abuse, neglect, or exploitation; served 942,010 meals at senior centers; delivered 1,050,725 in-home meals; and provided 192,600 hours of in-home services.

www.dhs.utah.gov

Workforce Services

The Utah Department of Workforce Services (DWS), "*Utah's Job Connection*," provides quality, accessible and comprehensive employment related support services to Utah's families. DWS coordinates and responds to the needs of employers, job seekers, and the community. For the fiscal year ended June 30, 2003, DWS spent \$363 million, of which \$309 million, or 85%, was federally funded. In addition, \$308 million in benefits were paid to unemployed workers from the Unemployment Compensation Fund. This included \$57 million of federal Temporary Extended Unemployment Compensation authorized by Congress.

Utah was the first state to consolidate employment and welfare programs and to establish a statewide system of "one-stop" employment centers.

Utah's Job Connection is electronic, too. DWS employs the latest technology to deliver services. In 1997, DWS centralized all Unemployment Insur-

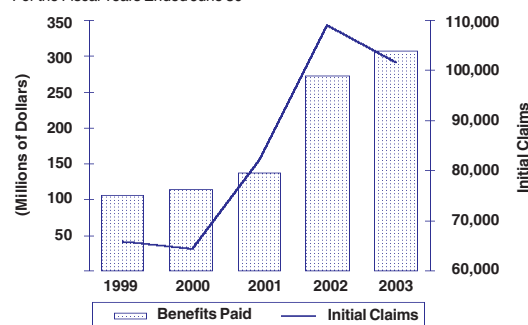
ance (UI) claims services into one state-of-the-art call center that saves time and money.

Since then, DWS created jobs.utah.gov, a comprehensive electronic employment exchange Web site. This Web site provides 24/7 access to employment services. Employers can pay their UI contributions online and transmit hire, wage, and tax information electronically. Job seekers can post resumes and search for jobs, and employers can post job openings and search for candidates.

www.jobs.utah.gov

Unemployment Compensation/Claims

For the Fiscal Years Ended June 30



Health

A strong public health system requires well-trained public health professionals who are equipped with the right tools to respond to emergencies and detect and control disease outbreaks. With \$6 million in bioterrorism grant money the Utah Department of Health (DOH) received in fiscal year 2003, the Division of Epidemiology and Laboratory Services and the Bureau of Emergency Medical Services were able to enhance the ability of state and local agencies and health care providers to recognize and respond to natural and unintentionally caused disasters; outbreaks of diseases such as influenza, SARS, West Nile Virus, and food poisoning; as well as intentional or terrorist acts involving biological or chemical agents.

Another role of the DOH is to administer the State's Medicaid Program, which provides health service funding for needy children, pregnant women, and other adults. This program serves an average of 155,000 clients per month, a 12% increase from the prior year. Medicaid accounts for 88% of the DOH expenditures and is approximately 74% federally funded.

The DOH also administers the Children's Health Insurance Program (CHIP) and the Primary Care Network (PCN). The CHIP program recently celebrated its 5-year anniversary and now provides health and dental insurance coverage for an average enrollment of 28,000 Utah children who would otherwise be without insurance benefits. The PCN was launched in July 2002, and provides coverage for more than 19,000 adults who cannot afford health insurance or their employers do not offer coverage.

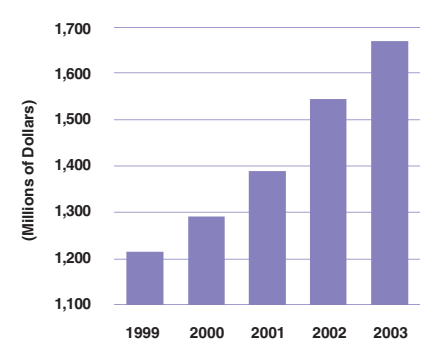
The balance of DOH expenditures includes many other programs such as:

- Early Intervention Program for Infants and Toddlers with Disabilities, which serves about 6,000 children per year.
- The WIC (Women, Infant, and Children) Nutrition Program, which provides supplemental food and nutrition education to about 65,000 participants a month, including pregnant and breast-feeding women and children under five years of age.
- The Utah Immunization Program which coordinates the use of publicly-purchased vaccine for 345,000 Utah residents each year.
- The Bureau of Licensing, which inspects, licenses, and investigates citizen complaints regarding hospitals, nursing homes, and child care centers.
- The Center for Health Data, which is responsible for issuing birth and death certificates.

www.health.utah.gov

Health and Human Services – Expenditures

For the Fiscal Years Ended June 30



E-Government

Under the direction of the State's Chief Information Officer, the State's information technology professionals, department heads and others continue to make great progress on achieving the Governor's vision of using technology to make state government services more efficient and accessible. The State currently offers well over 100 services with live 24/7 customer support on its Web site utah.gov. More services are being routinely added in an effort to reach the

Governor's goal of having all appropriate state government services online by 2004.

2003 Best of Web — The State's commitment to digital government has not gone unnoticed. Utah.gov was recently named the best state government Web portal in America by the Center for Digital Government, an international research and advisory institute on information technology in government and education.

www.utah.gov

LOOKING TO THE FUTURE

Update of Growth Projections

In 1997, the State partnered with Envision Utah, a public/private community partnership, to study the effects of long-term growth. The State projected transportation, air quality, land use, and water characteristics for the Greater Wasatch Area to the year 2020. In 2003, the State revised the projections to 2030. The results predicted population will continue to increase at the same rate as the present, the consumption rate of land for development will slow, transportation infrastructure will perform nearly as well as today, air quality will be stable, and water and

housing supplies will be adequate though more expensive.

The Greater Wasatch Area population is projected to increase from 1.9 million in 2000 to 3.1 million by 2030, a growth rate approximately twice the national average. The number of households is projected to increase even faster.

The current urban area occupies an estimated 389 square miles of land and is projected to increase to 697 square miles in 2030. In 1997 the forecast showed 695 square miles by 2020. Policy changes, which include a massive expansion in the

transit system, more transit-oriented development, and aggressive conservation of critical lands, are expected to slow the pace of land consumption.

Water is not expected to be a constraint to growth in the Greater Wasatch Area, as long as planned development of supplies occurs. Residents are expected to decrease per capita water consumption because of a continuation of current trends in the use of low-flow plumbing, xeriscaping, and rate increases.

Vehicle miles traveled in the Greater Wasatch Area is projected to increase as

residents increase vehicle ownership, drive farther for work trips, and make more non-work trips. However, because of increased investment in and use of mass transit, the transportation system is projected to perform better than was earlier predicted.

In sharp contrast to the 1997 projection, the 2003 projection shows that emissions of all five of the major monitored pollutants are not expected to increase.

Further details and information are available at:

www.governor.utah.gov/dea/QGET/1.htm